

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

Wisconsin Energy Corporation, Integrys )  
Energy Group, Inc., Peoples Energy, LLC, )  
The Peoples Gas Light and Coke Company, )  
North Shore Gas Company, ATC Management )  
Inc., and American Transmission Company LLC )

Application pursuant to Section 7-204 of )  
the Public Utilities Act for authority to )  
engage in a Reorganization, to enter into an )  
agreement with affiliated interests pursuant )  
to Section 7-101, and for such other )  
approvals as may be required under the )  
Public Utilities Act to effectuate the )  
Reorganization. )

Docket No. 14-0496

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**REBUTTAL TESTIMONY OF  
SEBASTIAN COPPOLA  
ON BEHALF OF  
THE PEOPLE OF THE STATE OF ILLINOIS**

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**AG Exhibit 4.0**

**January 15, 2015**

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## **EXHIBIT LIST**

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**INTRODUCTION**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Sebastian Coppola. My business address is 5928 Southgate Rd., Rochester, Michigan 48306.

**Q. ARE YOU THE SAME SEBASTIAN COPPOLA WHO SUBMITTED DIRECT TESTIMONY IN THIS DOCKET ON NOVEMBER 20, 2014?**

A. Yes.

**Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

A. I will present testimony in response to the rebuttal testimony of Joint Applicants<sup>1</sup>' witnesses Allen Leverett, James Schott, John Reed and David Giesler filed December 18, 2014. Because Mr. Leverett's rebuttal testimony significantly overlaps and summarizes the rebuttal testimony of Mr. Schott, I will primarily focus my rebuttal testimony on the rebuttal testimony of Mr. Schott. Also, I will present testimony in response to the November 20, 2014 direct testimony filed by Illinois Commerce Commission Staff ("Staff") witness Eric Lounsberry and the direct testimony filed by William Cheaks, Jr. on behalf of the City of Chicago and the Citizens Utility Board ("City/CUB").

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<sup>1</sup> The Joint Applicants are Wisconsin Energy Corporation ("Wisconsin Energy"), Integrys Energy Group, Inc. ("Integrys"), Peoples Energy, LLC ("PELLC"), The Peoples Gas Light and Coke Company ("Peoples Gas" or "PGL"), North Shore Gas Company ("North Shore"), ATC Management Inc., and American Transmission Company LLC. I also refer to the Joint Applicants as "JAs" in this testimony.

**Q. IS YOUR REBUTTAL TESTIMONY ACCOMPANIED BY ADDITIONAL EXHIBITS?**

**A.** Yes. I am sponsoring AG Exhibits 4.1 through 4.7.

**Response to Messrs. Leverett, Reed, and Schott's Rebuttal Testimony**

**Q. WHAT IS YOUR ASSESSMENT OF THE JAs' COMMITMENT TO COMPLETE THE ACCELERATED MAIN REPLACEMENT PROGRAM ("AMRP") BY 2030, AS STATED IN THE REBUTTAL TESTIMONY OF MR. LEVERETT AND MR. SCHOTT?**

**A.** Both Messrs. Leverett and Schott in their respective testimony continue to emphasize that the JAs' commitment to complete the AMRP is conditioned on Peoples Gas receiving recovery of costs associated with the program. On page 2, line 29-31 of his Rebuttal Testimony, JA Ex. 6.0, Mr. Leverett states:

**Peoples Gas will continue the [AMRP], assuming it receives and continues to receive appropriate cost recovery, with a planned 2030 completion date.**

On page 15, lines 405-409, Mr. Leverett repeats this theme:

**As explained in Mr. Schott's rebuttal testimony, it is Peoples Gas' intention, assuming it receives and continues to receive appropriate cost recovery, to complete the AMRP by 2030, i.e., in 20 years from the 2011 inception. And, as I discussed in my direct testimony, the Joint Applicants are committed to having Peoples Gas continue the AMRP on this basis.**

On page 4, lines 71-79 of his Rebuttal Testimony, JA Ex. 9.0, Mr. Schott makes the same point and elaborates further:

39           **In the 2007 Rate Cases and the 2009 Rate Cases [Dockets 07-0241/07-0242**  
40           **and Dockets 09-0166/09-0167, respectively], Peoples Gas was not seeking**  
41           **approval of a plan to accelerate ongoing main replacement but, rather, of a**  
42           **cost recovery mechanism to implement an accelerated main replacement**  
43           **program. Accordingly, the Commission language in the 2009 Rate Cases**  
44           **Order tying the completion of the AMRP by 2030 to Rider ICR is no longer**  
45           **applicable. It remains Peoples Gas' intention, assuming it receives and**  
46           **continues to receive appropriate cost recovery, to complete the AMRP by**  
47           **2030, i.e., in 20 years from the 2011 inception. However, Peoples Gas has**  
48           **made no commitment and does not understand itself to be under any**  
49           **requirement to complete the project in that timeframe.**

50           Putting aside Mr. Schott's interpretation of the legal effect of the Commission's Orders in  
51           the 2009 rate case approving the AMRP, there is nothing in the rebuttal testimony of  
52           these two witnesses emphasizing what should be the primary objective of the AMRP --  
53           increasing the safety of the Peoples Gas distribution system at the least cost for  
54           ratepayers. Instead, their emphasis is solely on cost recovery of PGL's AMRP  
55           investments and the resulting increases in the utility's rate base and earnings. The safety  
56           improvements, which were so highly touted in PGL witness Salvatore Marano's  
57           testimony in the 2009 Rate Case in order to obtain approval of Rider ICR and the AMRP,  
58           apparently are no longer on the list of commitments to get the program completed by  
59           2030. The Joint Applicants' main (and perhaps only) goal with respect to the AMRP  
60           seems to be "appropriate cost recovery."

61           The Joint Applicants' response to AG Data Request 10.07 on this topic, included as AG  
62           Exhibit 4.1, provides further evidence that the Company's main goal is to continue to  
63           complete the AMRP by 2030 subject to "appropriate cost recovery" and other non-safety  
64           conditions.

**Q. WHY SHOULD THE COMMISSION BE CONCERNED WITH THE JOINT APPLICANTS' OVER-EMPHASIS ON COST RECOVERY?**

A. The Joint Applicants seem to have lost perspective of what is important about the AMRP. Their emphasis should be on the effective execution of the AMRP and not a sole focus on "appropriate cost recovery." As long as the AMRP is carried out prudently with an emphasis on replacement of the most vulnerable infrastructure at a pace that is affordable for ratepayers, then there should not be any concern with cost recovery. Cost recovery should follow.

Unfortunately, as the testimony filed by the Attorney General, Staff, and City/CUB in this proceeding, as well as testimony in recent rate cases clearly demonstrates, the AMRP is not being efficiently and adequately implemented and managed. The rebuttal testimony of the Joint Applicants' witnesses indicates that they are in a state of denial about the current state of the program. In their view, the problems presented by Staff and intervenors are not real problems but only perceived problems.<sup>2</sup>

If the Joint Applicants refuse or resist acknowledging that the program (1) is being badly managed and (2) needs to be repaired or re-evaluated in light of the current circumstances and the resource capacity of Peoples Gas and of those outside contractors and agencies on which it relies, no significant improvement in the execution of the program will occur.

Instead, costs will continue to go up and, as long as the Joint Applicants are assured of "appropriate cost recovery," there is little incentive to make changes to business-as-usual practices.

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<sup>2</sup> JA Ex. 10 at 2:37-44.

Given the importance of the AMRP, the Commission should take the opportunity of this proceeding to require the Joint Applicants, and particularly Wisconsin Energy as the new controlling corporate entity over Peoples Gas, to commit to set the AMRP on a better course. Absent that commitment, the current course will lead to a detrimental impact on customer rates after the proposed merger. This point was made clear in my Direct Testimony, where I showed the impact on customer bills over the following decade based on the currently forecasted \$4.6 billion capital expenditures for the AMRP. Moreover, this cost is likely to climb even higher due to increased expenditures to comply with construction regulations recently issued by the City of Chicago.

**Q. AT PAGE 4, LINES 80-81 OF MR. SCHOTT'S REBUTTAL TESTIMONY, HE IMPLIES THAT THE AG PROPOSES TO CANCEL THE AMRP. IS THIS AN ACCURATE REPRESENTATION OF YOUR DIRECT TESTIMONY?**

A. No. Mr. Schott's statement could not be farther from the truth. It is the *implementation* of the current AMRP that is problematic with its cost overruns, mismanagement and lack of transparency. The program, as currently implemented by Peoples Gas, is clearly not in the best interest of its customers. This does not mean that it needs to be stopped. Rather, as I and others have said, the program needs to be restructured and effectively managed.

In my Direct Testimony, I repeatedly pointed out that Peoples Gas needs to implement an AMRP that (i) it can effectively manage, (ii) replaces the worst segments of its pipeline system as a priority, and (iii) is completed over a timeframe that is not financially burdensome on customers. Furthermore, I presented a scenario which demonstrated that

extending the current completion date by 10 years would lessen the financial burden on customer rates while still achieving the replacement of the high risk pipe segments and related infrastructure at potentially lower costs.

In response to a data request issued subsequent to the filing of his rebuttal testimony, Mr. Schott admitted that he did not mean to imply that I was advocating cancellation of the AMRP. (AG Exhibit 4.2 is a copy of this discovery response.) Although Mr. Schott makes this admission, his response is part of a disingenuous theme of playing with words instead of addressing the issues head on. His Rebuttal Testimony is simply a brazen attempt to obfuscate and confuse the Commission and not much else.

**Q. SHOULD THE COMMISSION ACCEPT MR. SCHOTT’S REBUTTAL TESTIMONY THAT THE CURRENT AMRP REPORTING REQUIREMENTS ARE ADEQUATE AND SHOULD NOT BE SUPPLEMENTED?**

A. No. Beginning on page 5, line 96 of his rebuttal testimony, Mr. Schott rejects Mr. Lounsberry’s proposed additional reporting requirements related to recommendations emanating from the Liberty Consulting Group’s (“Liberty”) investigation of the AMRP. He points out all of the AMRP information the Commission receives through rate case filings and QIP filings. He repeats those same sources of information beginning on page 6, line 123, in rebutting my recommendations for more meaningful reporting of AMRP performance and planning. Other than the utility’s planned AMRP investments for the next calendar year, the reports and information that Mr. Schott identifies consist

exclusively of historic information about AMRP expenditures that have already been made.

What Mr. Schott seems to miss is that providing reams of historical cost information in rate case proceedings or QIP filings and one-year projections of costs is not what Mr. Lounsberry and I are requesting. Such information has limited value. What Mr. Lounsberry and I are seeking is accountability and proof of performance. In other words, if Peoples Gas says they will do X for the coming year, then at the end of that year, the utility should explain, both quantitatively and qualitatively, the reason for any performance shortfalls or for any performance that exceeded PGL's projection.

If People Gas commits to a plan to replace certain high-risk segments of pipe in a one-year or a five-year plan, then it needs to provide clear evidence that those segments were replaced. Currently, Peoples Gas cannot provide that information. For example, in response to data request AG 10.15, the Joint Applicants were asked to "...Provide a list of segments with uniform main rank index ("UMRI") of 5.0 and greater that have been replaced since 2011 and indicate what year they were replaced." The Joint Applicants' answer follows:

**Peoples Gas does not maintain gas main segment data in a manner that could be used to provide a list of historical main rank index (MRI) values. Once data for a particular segment is changed or the segment is retired, there is no way to go back and provide a UMRI (uniform main rank index) from a past date. Therefore, the data shown in the attachment, JA AG 10.15 Attach 01 CONFIDENTIAL, represents all gas main segments replaced from 2011 through December 26, 2014 regardless of whether the UMRI ranking was 5 or greater for that particular main segment.**

In response to the AG's request that JAs "...Provide also the related cost and neighborhood priority ranking or UMRI ranking to each of the projects," the Joint Applicants stated:

**Peoples Gas does not track the cost of main replacement by segment. For UMRI ranking, please refer to the response to subpart (a).**

(AG Exhibit 4.3 provides the full text of the Joint Applicants' response to data request AG 10.15.) It is incredible that a gas utility the size of Peoples Gas with sophisticated computer systems and talented personnel cannot determine what high-risk, high-priority segments it has replaced and provide evidence that this critical work has been accomplished within the established schedule, so the Commission and the parties can review it in this or any other proceeding. Yet, Messrs. Leverett and Schott continue to insist that the current reporting on the AMRP's performance and accomplishments is more than adequate.

**Q. DID THE JOINT APPLICANTS ELABORATE FURTHER ON AMRP REPORTING SUBSEQUENT TO THEIR REBUTTAL TESTIMONY?**

A. Yes. In data request AG 10.09, issued subsequent to the Joint Applicants' rebuttal testimony, the Attorney General requested that Mr. Schott identify the existing report(s) that Peoples Gas provides to the Commission that provides the following information proposed by Mr. Coppola in his [Direct] testimony in AG Ex. 2.0, 34:689-35:705, and provide a copy of such reports:

a. Annual reports to the Commission, reconciling its actual vs. forecasted investments, and provide an

- 174 accounting of financial and non-financial benefits  
175 realized from the AMRP to date;
- 176 b. The planned infrastructure replacement segments  
177 for the upcoming 12-month period and their related  
178 cost;
- 179 c. The MRI of each planned targeted segment;
- 180 d. A list of the mains and other infrastructure that are  
181 still in need of replacement, along with their  
182 respective risk ranking and projected cost to  
183 complete;
- 184 e. The total projected annual cost to complete the  
185 program and quantity of mains, services, meters and  
186 other infrastructure to be replaced and installed;
- 187 f. An explanation and detailed corrective  
188 action/implementation plan for improved  
189 coordination with the City of Chicago permit and  
190 public works activities; and
- 191 g. A detailed corrective action plan and status report  
192 for implementation of the approved final  
193 recommendations from the pending outside audit.

194 With regard to item (a), the response pointed to certain reporting requirements under the  
195 Rider QIP that start with the first annual report to be issued in April 2015. This report  
196 supposedly will include a tally of costs incurred during the prior year and a reconciliation  
197 of revenues recovered through the Rider versus actual costs incurred. Although this is  
198 basic cost and revenue information, it is not what I have proposed. Item (a) requires  
199 Peoples Gas to explain what AMRP work it accomplished in that year versus what it had  
200 planned to accomplish, what segments or infrastructure items were replaced, at what cost,  
201 and why those installations and costs varied from what had been previously planned for  
202 that year.

203 With regard to item (b), the Joint Applicants point to their response to item (a). Again, this  
204 does not address my recommendation. What I have proposed in item (b) is that Peoples

Gas should be required to report in detail what AMRP work it plans to do for the upcoming year and specify the related cost for each segment and component. This information could be provided in conjunction with the annual Rider QIP filing. The objective here is to begin a process of accountability, which does not currently exist.

With regard to items (c), (d) and (e), the Joint Applicants' response refers again to their response to item (a), and Peoples Gas's plans to identify priority projects and rankings as part of the Rider QIP reporting. It also refers to federal reporting requirements that identify mains by type. Once more, the Joint Applicants have engaged in an exercise of deflection. Without addressing the specifics of the recommendation and providing proof of how the existing and planned information satisfies my proposal, the response implies that there is nothing else to be done.

The reporting requirements recommended in items (c), (d) and (e) go to the heart of the AMRP program, *i.e.* to provide a list of risk-ranked pipeline segments to be removed and the related cost so that the Commission and other parties can tell what meaningful progress is being made towards removing pipe segments that have high UMRI rankings. The information cited in the Joint Applicants' response does not provide that crucial information.

With regard to items (f) and (g), the response points to the Liberty AMRP audit and Mr. Leverett's testimony on this subject. Although the Liberty audit will likely report on implementation deficiencies and shortfalls in the coordination of activities between Peoples Gas and the City of Chicago, there is no need to wait until that audit report is

226 fully fleshed out to begin to address the problems in the execution of the AMRP. It is no  
227 secret that effective coordination between the two entities has been lacking and that the  
228 inefficiencies have caused the AMRP's cost to increase. It is also no secret that the City  
229 has issued new construction regulations which will likely lead to additional increases in  
230 program cost. To begin to report on corrective actions taken with the City beginning in  
231 2015 is essential to the success of the AMRP and to the effort to reduce the impact of the  
232 program on customer rates.<sup>3</sup>

233 It is unfortunate that the Joint Applicants have chosen to reject out of hand very  
234 meaningful recommendations to improve the reporting and accountability of the AMRP.  
235 I would have expected a more constructive response and openness to consider my  
236 recommendations together with other recommendations made by Staff and City/CUB.  
237 Such an approach would demonstrate a willingness to make needed remedies to improve  
238 the management, visibility, and effectiveness of the AMRP. Unfortunately, as they have  
239 throughout this case, the Joint Applicants have dug their heels in and rejected any notion  
240 that there are troubling problems with the AMRP, much less seriously consider or accept  
241 any suggested modifications that could improve the defective program performance.

242 In summary, the Joint Applicants have not provided convincing evidence that existing  
243 reports and other planned reporting under the Rider QIP address the reporting  
244 recommendations I have presented in my testimony. Therefore, the Commission should  
245 require that the approval of the merger be conditioned on the Joint Applicants accepting  
246 my reporting requirements.

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<sup>3</sup> AG Exhibit 4.4 provides the full text of the Joint Applicants' response to the items discussed above.

**Q. ON PAGE 2 OF HIS REBUTTAL TESTIMONY MR. LEVERETT DESCRIBES THE JOINT APPLICANTS' COMMITMENTS TO EVALUATE THE LIBERTY AUDIT RECOMMENDATIONS AND BEGIN REPORTING TO THE ICC STAFF IN 2018. WHAT IS YOUR ASSESSMENT OF THESE COMMITMENTS?**

A. I find these commitments extremely weak and wholly inadequate. In addition to his statements on page 2, Mr. Leverett elaborates further on those commitments beginning on page 15 of his rebuttal testimony. His commitment to implement the Liberty recommendations would not begin until the issuance of the final report and has so many conditions and qualifications as to be meaningless. In addition, his commitment to begin reporting on the implementation of those recommendations beginning in January 2018 is unacceptable. Waiting to implement those recommendations and beginning to report on their implementation until a final report is issued would mean waiting another three years to get necessary adjustments made to the execution of the AMRP. This is further evidence of the Joint Applicants' tone deafness regarding problems with the AMRP program.

These are not commitments that the Commission should accept. Liberty has been working on this investigation for about a year. Any recommendations they present in their preliminary report due in the first quarter of 2015 would be significant enough to merit serious attention by Peoples Gas and a commitment to begin addressing those recommendations immediately, not almost three years later. If necessary, changes to the implementation of those recommendations can be made once the recommendations are finalized. Reporting on the progress made toward implementation of those recommendations should begin in September 2015 and continue at least semi-annually

269 thereafter. The Joint Applicants do not seem to appreciate the urgency of fixing the  
270 AMRP now, not years down the road.

271 **Q. ON PAGE 7 OF HIS REBUTTAL TESTIMONY, MR. SCHOTT STATES THAT**  
272 **FINES AND PENALTIES PAID TO THE CITY OF CHICAGO ARE NOT**  
273 **INCLUDED IN CUSTOMER RATES. ARE THERE OTHER SIMILAR FEES**  
274 **IMPOSED BY THE CITY THAT ARE INCLUDED IN RATES?**

275 A. Yes. In his Direct Testimony<sup>4</sup>, Mr. William Cheaks, Jr. stated that the City of Chicago  
276 had assessed \$12,615,425 of street degradation fees to Peoples Gas since July, 2012. The  
277 pertinent section of his testimony reads as follows:

278 **Q. Can you provide any other examples of wasteful work?**

279 A. Yes. On multiple occasions, PGL has applied for permits that  
280 were not needed due to clerical error. In one instance, PGL's  
281 contractor paved with a concrete mix that was laid down on the  
282 Public Way when the temperatures were below standard, requiring  
283 a re-do of the whole job. As explained in the regulations above,  
284 any work in a moratorium street requires payment of degradation  
285 fees. Since July 2012, PGL has paid the City \$12,615,425 in  
286 degradation fees. City-CUB Ex. 3.6. Although CDOT has the  
287 ability to charge PGL for occupying the Public Way in these  
288 instances, CDOT has worked with PGL to minimize these costs by  
289 optimizing the footage and duration of their projects. Since PGL  
290 does not seem to adhere even to its own Main Ranking Index  
291 ("MRI") as an absolute prescriptive schedule, I am not sure why  
292 they would not have the flexibility to schedule less work in  
293 moratorium streets.

294 City-CUB Ex. 3.0 at 24-25:490-501. It is evident from Mr. Cheaks' testimony that these  
295 are not normal fees charged to allow routine construction in the City streets, but additional

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<sup>4</sup> City-CUB Ex. 3.0 at 25:490-50.

fees charged for violating the construction moratorium imposed on streets that have been recently constructed or paved.

In response to a data request, the Joint Applicants have stated that they do not view these fees as fines and penalties, and thus they have been included in its revenue requirement and customer rates.<sup>5</sup> The Joint Applicants' view of the degradation fees is troubling and should concern the Commission. The fees are imposed by the City for violation of its rules and ordinances. As Mr. Cheaks stated in the testimony quoted above, Peoples Gas may not be using scheduling flexibility to avoid or at least significantly minimize these fees. City-CUB Exhibit 3.6 lists more than 2,700 separate incidences of street degradation fees being assessed from 2012-2014, a period of about two years. These are not occasional incidents but a common occurrence.

The amount of street degradation fees incurred by Peoples Gas related to the AMRP is not reasonable and not prudently incurred. The Commission should at least require that the Joint Applicants significantly remedy this situation as a condition to approving the merger and disallow any excessive reparation fees in the Rider QIP and future general rate cases.

**Q. DO YOU AGREE WITH MESSRS. LEVERETT AND REED'S REBUTTAL TESTIMONY THAT DUE DILIGENCE REVIEW OF THE AMRP WAS NOT NECESSARY?**

A. No, I do not. Beginning on page 14 of his Rebuttal Testimony, Mr. Leverett states that review of an operational program such as the AMRP during pre-merger due diligence is

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<sup>5</sup> AG Exhibit 4.5.

not typical, particularly in a stock for stock transaction. He further states that the program is not material within the scope of the assets and other financial measure of the merging entities. Mr. Reed basically echoes the same sentiments, adding that "...Pre-merger due diligence typically involves an assessment of the material condition of the target company, an analysis of whether the financial and economic projections are reasonable, and an evaluation of the business, financial and regulatory risk of the target company."<sup>6</sup>

I find these statements incredible. The Joint Applicants have repeatedly stressed the importance of obtaining "appropriate rate recovery" of the costs of the AMRP as a condition to continue its implementation and achieving a 2030 completion date. In its general rate case filings in 2012 and 2014 Peoples Gas made it clear that the AMRP was one of the major drivers for proposed rate increases. The Rider QIP allows Peoples Gas more timely recovery of costs related to the AMRP. The Commission Staff in its testimony in Peoples Gas' 2012 rate case made it clear its serious concerns with the way the company was managing the AMRP. In response to Staff's stated concerns, the Commission ordered that an audit be conducted of the manner in which Peoples Gas is administering the program. Liberty is currently performing the Commission-ordered audit.

These events demonstrate that the AMRP is not a small operational program to be dealt with in post-merger due diligence. The AMRP is fundamental to the future earning power, reliability and safety of the Peoples Gas delivery system. It is not only material to the entities being acquired, it is essential to the success of the acquisition. The facts (1)

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<sup>6</sup> JA Ex. 8.0 at 13:265-268.

that the Commission ordered an audit of the AMRP and (2) that completing the program by 2030 requires investing more than \$4 billion in capital expenditures should have triggered a need to perform some significant due diligence. By any reasonable standard, a \$4 billion capital program is material in this merger transaction. For the Joint Applicants not to have done a reasonable amount of due diligence of the program in the pre-merger phase raises grave concerns about Wisconsin Energy's understanding of the current state of the AMRP and its priorities and commitments to complete the AMRP in a way that will not harm customers if the merger is approved.

**Response to Mr. Giesler's Rebuttal Testimony**

**Q. HOW DO YOU RESPOND TO MR. GIESLER'S REBUTTAL TESTIMONY DISMISSING YOUR TESTIMONY AND THE TESTIMONY OF MR. CHEAKS AS CLAIMS AND CHARACTERIZATIONS TO BE ADDRESSED IN DIFFERENT FORUMS?**

A. Beginning on page 2, line 37 and continuing to page 3, line 60 of his Rebuttal Testimony, JA Ex. 10.0, Mr. Giesler refuses to acknowledge that the execution of the AMRP is seriously flawed and will severely harm customers if its escalating costs and inefficiencies are not timely resolved by the Joint Applicants.

Mr. Giesler is surprisingly dismissive of the long list of problems provided in both my testimony and Mr. Cheaks Direct Testimony. What Mr. Cheaks and I have documented are not minor claims and characterizations of the program, but serious problems that are hindering the effective execution of the AMRP, leading to higher costs that Peoples Gas

has sought and, I assume, will continue to seek to recover in rates, ultimately causing financial harm to customers. Furthermore, the inability of the Joint Applicants to provide evidence that the high-risk segments of its pipeline system are being replaced raises more doubt about the effectiveness of the implementation of the program. These are not minor problems to be glossed over as opinions and concerns to be addressed in other forums.

The severity of these problems needs to be addressed now and the Joint Applicants need to commit to their resolution as a condition of obtaining approval of the merger from the Commission.

**Q. WHAT IS YOUR RESPONSE TO MR. GIESLER'S REBUTTAL TESTIMONY ON THE PRICEWATERHOUSECOOPERS'S 2014 AUDIT REPORT?**

A. On page 4, lines 70-76, of his rebuttal, Mr. Giesler states that a recent audit assessment by PricewaterhouseCoopers ("PwC") addresses some of the questions raised by Mr. Lounsberry and myself in our respective Direct Testimony. Mr. Giesler provided the PwC audit report in JA Ex. 10.1.

I have several concerns with the inconsistencies in Mr. Giesler's evidentiary presentation and discovery responses received to date from the Joint Applicants. First of all, the PwC assessment was completed in February, 2014 and the report was issued in October, 2014. The report was provided by the Joint Applicants for the first time in conjunction with Mr. Giesler's Rebuttal Testimony despite past multiple data requests to the Joint Applicants to provide a detailed action plan implementing the recommendations from previous PwC audit reports and any subsequent audit reports. According to the Joint Applicants, this

omission was an inadvertent oversight.<sup>7</sup> This was no small matter that would have fallen through the cracks. Peoples Gas spent significant resources to address the recommendations contained within this report and prior audit reports by PwC. The inconsistencies between the information provided in this audit report and responses provided by the Joint Applicants in prior data requests also raise questions about the validity of the information provided. For example, in response to Staff data request ENG 2.08, the Joint Applicants stated that the action plans to address each of the major categories of deficiencies identified in two prior PwC audits would be completed by March 31, 2015. In the latest audit report provided with Mr. Giesler's Rebuttal Testimony, we are now led to believe that nearly all of the recommendations were implemented in 2014.

Similarly, in their October 15, 2014 response to AG data request 4.20 (which is included in AG Exhibit 2.2 attached to my Direct Testimony), the Joint Applicants responded that Integrys and Peoples Gas had not yet defined a future state operating model to address some of the organizational problems affecting the execution of the AMRP. Yet, in response to AG data request 10.14 received on December 23, 2014, the Joint Applicants provided an organization structure/operating model dated September 2, 2014. This would indicate that a future state operating model had already been defined by the time the response to AG 4.20 was prepared.

Additionally, in data request AG 10.14, the Joint Applicants were asked to provide the detailed analysis and findings from the PwC February, 2014 assessment related to certain

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<sup>7</sup> Joint Applicants response to data request AG 10.13.

items identified in the scope of the audit<sup>8</sup> that dealt with project planning, schedule management, cost management, main replacement management, resolution of issues with the City of Chicago, reductions in operations and maintenance costs related to the retirement of replaced pipelines, and other activities. The Joint Applicants ignored the request and instead provided multiple pages of what they referred as “quick win” documents that supposedly identify certain initiatives that were undertaken. Without knowing what the audit findings were, it is not possible to make a reasonable assessment that any of the initiatives will solve the underlying problems.

The inconsistencies stated above, as well as the inability to assess which, if any, audit findings have been addressed, undermine the Joint Applicants’ credibility that anything significant has really been accomplished in response to the PwC audit reports.

**Q. BEGINNING ON PAGE 4, LINE 78, OF HIS REBUTTAL TESTIMONY, MR. GIESLER RAISES DOUBT THAT YOUR RECOMMENDATIONS TO SCALE THE AMRP TO AN APPROPRIATE LEVEL OF MAIN REPLACEMENT, TARGETING HIGH RISK SEGMENTS, WOULD BE COST EFFECTIVE. HOW DO YOU RESPOND?**

**A.** Mr. Giesler incorrectly assumes that my recommendation to prioritize replacement of high risk cast iron and ductile iron pipeline segment is solely based on a single attribute. As stated on page 5 of his Rebuttal Testimony, beginning on line 98, it is Peoples Gas that has developed an MRI/UMRI scoring system to identify the higher risk segments with scores of 5.0 and 6.0 as priority segments to be replaced. Some of these segments are adjacent to

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<sup>8</sup> JA Ex. 10.1 pages 7 and 8.

schools, hospital and nursing homes. According to Mr. Giesler's Rebuttal Testimony, these segments are to be retired within one year. Mr. Giesler also states that segments with a UMRI value greater than 3.0 are viewed as possible replacement candidates when performing work on adjacent segments or when evaluating public works improvements.

Having explained these criteria and priorities, he then launches into a discussion of how Peoples Gas uses a zonal or neighborhood approach that applies other attributes to determine when particular mains and services will be replaced. After reading Mr. Giesler's Rebuttal Testimony and other information provided by Peoples Gas in response to data requests, one is left wondering which methodology is actually being used to identify and schedule which mains and services will be replaced.

The problem is compounded by a lack of information as to which high risk segments have been replaced and when, and which high risk segments remain to be replaced and when. As I discussed earlier, and as shown in the Joint Applicants' response to AG data request 10.15 (which is included in AG Exhibit 4.3), Peoples Gas cannot provide a list of segments with UMRI of 5.0 and greater that have been replaced since 2011 or identify in which year they were replaced. Nor can the company provide the cost of the segments that have been replaced or the cost of the segments to be replaced by neighborhood ranking or the UMRI ranking of the segments included within those neighborhood projects. In other words, Peoples Gas seems to be flying blind. How Mr. Giesler can assert that my recommendation may not be as cost effective as Peoples Gas's implementation of the program is unexplainable.

442 **Q. ON PAGE 6, LINES 111 TO 117, MR. GIESLER STATES THAT THE AMRP**  
443 **INVESTMENT IS DEFINED IN THE FIVE-YEAR CONSTRUCTION PLAN**  
444 **WHICH WAS PROVIDED IN RESPONSE TO DISCOVERY AND THAT THIS**  
445 **PLAN WILL BE UPDATED ANNUALLY. WHAT IS YOUR ASSESSMENT OF**  
446 **THIS PLAN?**

447 A. I have reviewed both the five-year plan prepared in May, 2013 and the predecessor plan  
448 prepared in June, 2012. Peoples Gas did not prepare an updated plan in 2014 and has not  
449 stated if and when it will prepare an update in 2015.

450 Beginning with the 2012 Construction Plan, Peoples Gas defined certain commitments it  
451 had made to the Commission within the AMRP. I requested the Joint Applicants to  
452 provide a report of whether or not those commitments were accomplished or what  
453 progress the company has made toward fulfilling those commitments. The following list  
454 of commitments is followed by what Peoples Gas has reported has been accomplished  
455 through November, 2014. (AG Exhibit 4.6 has the responses to data requests that support  
456 the information reported below.)

- 457 1. Replace all main segments within one (1) year of reaching or exceeding a UMRI of  
458 6.0, regardless of the location.

459 **What has been accomplished:** Joint Applicants refused to provide this  
460 information as not relevant and unduly burdensome.

- 461 2. Replace all main segments within one (1) year of reaching or exceeding a UMRI of  
462 5.0 that are adjacent to schools, hospitals, and nursing homes.

**What has been accomplished:** Joint Applicants refused to provide this information as not relevant and unduly burdensome.

3. Replace medium-pressure ductile-iron (AMRP) segments by the end of Calendar Year (CY) 2013.

**What has been accomplished:** Commitment was not completed by the end of 2013. As of November 1, 2014, 25.8 miles, or 43%, still remain to be replaced.

4. Replacement of Bare Steel Services by 2018.

**What has been accomplished:** As of November 25, 2014, only 5% of these services have been replaced. 95% remains to be replaced.

5. Target replacement of cast iron and ductile iron, low and medium-pressure main in North District over the short term.

**What has been accomplished:** As of October 31, 2014, only 14% of these mains have been replaced. The remaining 86% have not yet been replaced.

It is evident from this analysis that Peoples Gas has not met many of its commitments to the Commission and is significantly behind schedule in meeting the rest.

**Q. DO YOU HAVE ANY OBSERVATIONS ON THE NEIGHBORHOOD PRIORITY RANKINGS PRESENTED BY PEOPLES GAS IN THE 2013 CONSTRUCTION PLAN AND THE PREVIOUS PLAN PREPARED IN 2012?**

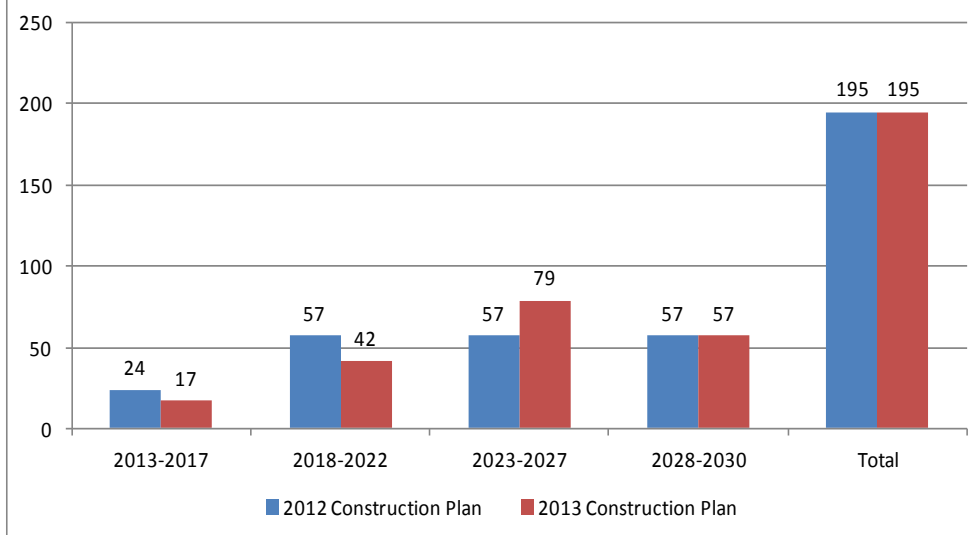
A. Yes. In the 2012 Construction Plan, Peoples Gas identified and ranked 195 neighborhood projects to be completed in five-year groupings between 2013 and 2030. The first group, consisting of 24 neighborhoods, was to be completed between 2013 and 2017 and entailed replacing 3.9 million feet of pipe and 105,673 services. The second group of 57 neighborhoods would be completed between 2018 and 2022 and entails replacing 3.7

million feet of pipe and 101,070 services. The third group, to be completed between 2023 and 2027, also had 57 neighborhoods with 1.9 million feet of pipe and 51,900 services. The last group of 57 neighborhoods was planned to be completed over a 3-year period between 2028 and 2030 and entails 393,278 feet of pipe and 9,621 services.

The 2013 Construction Plan was basically a repeat of the 2012 plan. The number of neighborhoods to be completed remained at 195 and the total number of feet of pipe and services also remained the same at 9.9 million and 268,564, respectively. The only changes appear to be in the planning horizon, now 2014 to 2030 (instead of 2013 to 2030) and also some rearrangement of when the projects would be done within each 5-year grouping. What the 2013 Construction Plan indicates is that either nothing was anticipated to be accomplished in 2013 or the Plan was not adequately updated through a rigorous planning process.

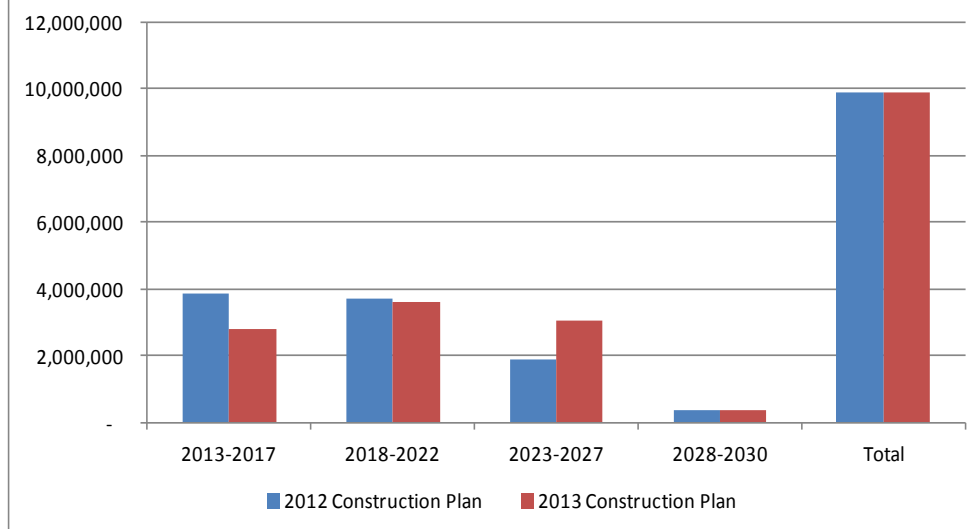
AG Exhibit 4.7 and the following two tables summarize the key information provided by the Joint Applicants in response to discovery and show the comparison between the 2012 and 2013 Construction Plans.

**Table 1**  
**Number of Neighborhoods**



501

**Table 2**  
**Feet of Pipe to be Installed**



502

503 As shown in the tables above, the number of projects to be completed and the number of

504 feet of pipe to be replaced were reduced during the first ten years of the AMRP and shifted

to the subsequent five-year period. This shift raises the question about how high of a priority these projects really are in terms of safety, given the postponements shown above.

It is also noteworthy that in the 2013 Construction Plan, the final 57 neighborhoods are planned to be completed over a two-year period from 2029 to 2030. Although fewer miles of pipe and services are planned to be replaced at that point, it still raises the issue of how realistic the plan really is. As stated above, Peoples Gas did not complete an updated Construction Plan in 2014. It will be informative to see what additional changes to the construction phases are made in the 2015 Construction Plan, if one is prepared. My expectation is that we will see a further shift of projects and pipe replacements along with the associated services to later years due to the difficulties that Peoples Gas has experienced with the AMRP during the past years, particularly in coordinating projects with the City of Chicago.

**Q: WHAT DO THESE DELAYS IN NEIGHBORHOOD AMRP WORK INDICATE TO YOU RELATIVE TO THE 2030 COMPLETION DATE?**

**A.** Again, this raises the question about the continued validity of a required completion date of 2030. In the face of mounting evidence about PGL's ability to meet the deadline and, considering its current flawed performance of the AMRP program, the Commission should examine whether completion of the AMRP can still be accomplished by the year 2030. In fact, the date was proposed by Peoples Gas witness Marano in the 2009 Rate Case and adopted by the Commission, not based on a determination of a pipeline safety

study, but based on Mr. Marano's flawed financial analysis.<sup>9</sup> Rigidly adhering to a completion date that is unlikely to be attained by Peoples Gas will undoubtedly result in continued increases in construction costs as Peoples Gas scrambles to meet an arbitrary date. It is obvious that both Peoples Gas and CDOT are significantly taxed by the current level of AMRP construction activity being attempted. To expect Peoples Gas and CDOT to increase the speed of the program in order to catch up on delayed work would be unrealistic and would lead to high program costs to the detriment of ratepayers.

The best course of action is for the Commission to require the Joint Applicants to take a step back in preparing the 2015 Construction Plan. Peoples Gas should prepare an AMRP implementation plan that is adequately scaled to the resources and work capacity that the utility and the City can reasonably muster. The program should be refocused on prioritizing the high-risk projects within Peoples Gas's UMRI/Zonal/Neighborhood methodologies in order to improve the safety of its pipeline system in a cost-effective manner. Developing a more realistic and manageable completion timeframe for the AMRP can still achieve the main objective of improving the safety of Peoples Gas' pipeline system, while minimizing construction cost overruns and ultimately reducing the burdensome impact of the program on customer rates.

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<sup>9</sup> Mr. Marano incorrectly co-mingled construction and O&M cost savings in arriving to his conclusion that an AMRP with a completion date of 2030 was cost advantageous to customers in comparison to the predecessor main replacement program. AG/CUB witness Scott Rubin also pointed this out in considerable detail in his rebuttal testimony in the 2009 Rate Case. *See* Docket No. 09-0166/0167, AG/CUB Ex. 2.0 at 2:20-109.

**Q. ARE THERE OTHER IMPROVEMENTS YOU WOULD RECOMMEND IN PREPARING THE NEXT CONSTRUCTION PLAN?**

A. Yes. Two things are lacking in the 2012 and 2013 Construction Plans: (i) projected costs for each neighborhood project; and (ii) the identification of cost savings and benefits resulting from the replacement of the old infrastructure. The next Construction Plan should include projected costs associated with the replacement of each component, *i.e.* mains, services, meter relocation, etc., for each neighborhood. Peoples Gas should track actual cost data in work orders so that meaningful comparisons and analysis can be performed at the end of each year as to how effectively the projects were managed. Similarly, Peoples Gas needs to devise a process to identify which mains have been replaced based on the assigned UMRI index. This information is critical to being able to monitor which high-risk pipe segments are actually being replaced. As stated earlier, currently Peoples Gas cannot provide this information – a troubling fact that the Commission must take note of as it contemplates what conditions should be placed on any merger approval.

In his testimony in the 2009 Rate Case, Mr. Marano identified many potential benefits that would occur as a result of embarking on the AMRP. Peoples Gas is on that journey now, but it does not know if it is on track with achieving what the AMRP was supposedly designed to achieve -- that is, improved safety, reduced low-pressure main problems, reduced O&M cost, and other alleged benefits. Peoples Gas needs to provide an annual report as part of the Rider QIP and similar information in conjunction with future general

rate cases that identifies what financial and non-financial benefits have been achieved from the implementation of the AMRP.

If approving the merger transaction, the Commission should require that the Joint Applicants agree to these improvements.

**Response to Mr. Lounsberry's Direct Testimony**

**Q. WHAT IS YOUR GENERAL ASSESSMENT OF MR. LOUNSBERRY'S DIRECT TESTIMONY WITH REGARD TO THE AMRP?**

A. Generally, I find Mr. Lounsberry's testimony about the AMRP in agreement with my Direct Testimony and I support the various findings and recommendations he has made with only one exception. That exception is the requirement to impose a commitment on the Joint Applicants to complete the AMRP by the end of 2030.

**Q. PLEASE EXPLAIN WHY THIS COMMITMENT SHOULD NOT BE IMPOSED ON THE JOINT APPLICANTS AS PART OF THE MERGER APPROVAL BY THE COMMISSION.**

A. As I explained earlier, there is nothing magical or critical about a 2030 completion date for the AMRP. Again, the date was not based on a determination of a pipeline safety study, but based on Mr. Marano's flawed financial analysis. In fact, to continue to hold Peoples Gas to this date could be counter-productive and cause higher program costs and a heavier burden on customers while not significantly improving the safety of the distribution pipeline system.

The testimony of Staff witness Buxton in Peoples Gas's 2012 rate case quoted at page 16, lines 375-380 of Mr. Lounsberry's Direct Testimony is quite revealing and on point with my disagreement:

**There is no reason for the Commission to believe that Peoples can complete its AMRP in 20 years as it convinced the Commission it should back in 2009 and no way for the Commission to know what the completed AMRP will cost... The AMRP is behind schedule and will fall further behind in 2013.**

I have seen no evidence in this case that leads me to believe that Mr. Buxton's conclusions are no longer true. The level of construction activity that Peoples Gas has undertaken to implement the AMRP is taxing its resources and capabilities, and also those of the City of Chicago. In the meantime, Peoples Gas has and will in all likelihood continue to file rate cases with plant investment and O&M expense projections that assume a 2030 completion date, with ratepayers being forced to pay the higher rates that accompany those forecasts. It is not realistic to expect Peoples Gas to increase its AMRP construction activity to an even higher level to make up for delayed work. The likely result will be more delays, more construction cost overruns, and chaos in coordinating activities with CDOT, ultimately resulting in higher rates for customers.

**Q. WAS THE AMRP COMPLETION DATE OF 2030, ADOPTED BY THE COMMISSION IN THE 2009 RATE CASE, BASED ON AN ENGINEERING OR PIPELINE SAFETY STUDY?**

**A.** No, it was not. In adopting the 2030 AMRP completion date, the Commission relied primarily on the testimony of Company witness Marano and Staff witness Harold Stoller. Reading through Mr. Marano's Direct Testimony in Docket Nos. 09-0166/09-0167, it is

apparent that the 2030 completion date was a recommendation based on his financial analysis of three different completion date alternatives.<sup>10</sup> Although he discussed the safety aspects of cast iron, ductile iron, and unprotected pipe, he made no mention of any engineering or safety studies of Peoples Gas's pipeline system that required a 2030 completion date. Therefore, the 2030 date was the outcome of a financial analysis by Mr. Marano, which AG/CUB witness Scott Rubin debunked as faulty in rebuttal testimony in the same docket.

In his testimony in the same docket, Mr. Stoller made the following three recommendations to the Commission with regard to Peoples Gas undertaking an accelerated main replacement program:

- 1. Peoples Gas should be ordered by the Commission to conduct an in-depth study of the proposed accelerated cast and ductile iron main replacement program since the program appears to be necessary for the long term safety of Peoples Gas' natural gas distribution system.**
- 2. Peoples Gas should present the Commission with a fully-developed plan for carrying out the accelerated main replacement program and obtain Commission approval of that proposed plan in a docketed proceeding before commencing the program, with the plan to be analyzed by an independent consultant to be retained by the Commission at Peoples Gas' expense prior to Commission approval.**
- 3. Following Commission approval of Peoples' plan for the main replacement program, Peoples should be ordered to return to the Commission with an updated analysis of the program every three years indicating the progress of the program to date, and plans for the remainder of the program if those plans have changed since the last periodic analysis, the update report to be analyzed by an independent consultant retained by the Commission at Peoples Gas' expense.<sup>11</sup>**

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<sup>10</sup> Docket No. 09-0166/0167 (cons.), PGL Ex. SDM-1.0.

<sup>11</sup> Docket Nos. 09-0166/09-0167 (cons.), ICC Staff Ex. 14.0 at 2:25-40.

Mr. Stoller correctly recommended that Peoples Gas perform a more in-depth study for an accelerated main replacement program, but this was not done. His second recommendation for a fully-developed plan also never happened. His third recommendation for a periodic review with reports on the performance of the program as well as plans for the remainder of the program accompanied by independent analysis also did not occur as he envisioned. Although later in his testimony Mr. Stoller recommends adoption of a 20-year program, (which appears to somewhat contradict his main recommendations quoted above), he seemed ambivalent about whether 20 years was the right timeframe.<sup>12</sup>

The point of revisiting this past testimony is to show that a 20-year program at that time seemed like a reasonable timeframe, albeit based on limited and even faulty information. That timeframe now seems unrealistic and will likely cause further program cost overruns. Therefore, the parties to this proceeding should not try to impose a date that has become unrealistic to achieve without significant further escalation in costs and negative consequences to ratepayers.

**Response to Mr. Cheaks' Direct Testimony**

**Q. WHAT IS YOUR GENERAL ASSESSMENT OF MR. CHEAKS'S DIRECT TESTIMONY WITH REGARD TO THE AMRP?**

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<sup>12</sup> *Id.* at 6:146-149 and 161.

652 A. Mr. Cheaks' Direct Testimony reveals the difficulties that Peoples Gas is experiencing in  
653 implementing the AMRP. The level of activity and coordination between the company  
654 and the CDOT is staggering for a program that Mr. Cheaks has described as "massive".<sup>13</sup>

655 Generally, Mr. Cheaks' testimony is consistent with most of the findings and conclusion  
656 in my Direct Testimony. Most importantly, his testimony puts into perspective the  
657 complexity of the AMRP and the monumental task of replacing miles of pipe, services and  
658 other infrastructure in an urban environment with millions of people, automobiles,  
659 commercial vehicles, and networks of water, electric, telephone, and cable wires. In the  
660 midst of all of this, the utility must coordinate construction activities, engineering plans,  
661 and inspections with CDOT officials and other public works projects without unduly  
662 upsetting customers and other constituencies.

663 Although these tasks can be effectively managed and carried out, the number of projects to  
664 be managed can reach a critical point where the resources both in the field and in  
665 management become overwhelmed. The same can occur within CDOT. When resources  
666 get stretched, problems occur and projects lag or do not get sufficient attention. Mr.  
667 Cheaks' testimony is a testament of what can happen when a program is accelerated to a  
668 level that exceeds a company's capacity to handle an extremely taxing level of  
669 construction activity. The result is massive confusion, lack of coordination, cost overruns,  
670 missed deadlines, and a program in disarray.

671 The Commission should take careful note of these issues and Mr. Cheaks' testimony on  
672 these points.

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<sup>13</sup> City/CUB Ex. 3.0 at 49:954.

673 **Q. WHAT ARE YOUR RECOMMENDATIONS REGARDING THE AMRP?**

674 A. The Commission should adopt the conditions to the merger that I made in my Direct  
675 Testimony, AG Ex. 2.0. They are repeated below:

- 676 a. Wisconsin Energy shall perform a thorough evaluation of the AMRP and  
677 scale the program to a level of cast iron/ductile iron replacement and related  
678 infrastructure upgrades that is manageable; targets high priority, high risk  
679 segments; is cost-effective; and minimizes the impact on customer rates. An  
680 accelerated main replacement program that replaces 70 miles of cast/ductile  
681 iron and low-pressure pipe with 100 miles of new pipe, as described in my  
682 Direct Testimony, could achieve these objectives.<sup>14</sup>
- 683 b. Peoples Gas shall commit to a transparent process of providing annual  
684 reports to the Commission reconciling its actual vs. forecasted AMRP  
685 investments, and providing an accounting of financial and non-financial  
686 benefits realized from the AMRP to date.
- 687 c. Peoples Gas shall present a complete, detailed, work plan annually for the  
688 remainder of the AMRP program that shows: (1) the planned infrastructure  
689 replacement segments for the upcoming 12-month period and their related  
690 cost; (2) the MRI of each planned targeted segment; (3) a list of the mains  
691 and other infrastructure that are still in need of replacement, along with their  
692 respective MRI ranking and projected cost to complete; (4) the total  
693 projected annual cost to complete the program and quantity of mains,  
694 services, meters and other infrastructure to be replaced and installed; (5) an  
695 explanation and detailed corrective action/implementation plan for  
696 improved coordination with the City of Chicago permit and public works  
697 activities; and (6) a detailed corrective action plan and status report for

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<sup>14</sup> AG Ex. 2.0 at 32: 631-655.

698 implementation of the approved final recommendations from the pending  
699 outside audit.

700 d. Any approval of the merger also should be conditioned on a requirement  
701 that Peoples Gas exclude from base rate and surcharges any excessive street  
702 degradation fees found to be unreasonable and imprudently incurred.

703 These conditions will help to ensure both the safety and reliability of the Peoples Gas  
704 distribution network and that the impact of the AMRP on future customer rates will be  
705 minimized, thereby ensuring least-cost utility service.

706 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

707 A. Yes. However, I reserve the right to incorporate new information that may subsequently  
708 become available. I also reserve the right to supplement my testimony with the results of  
709 Liberty's Interim Report, scheduled for release in mid-January, 2015.